

## Message Text

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ACTION PM-04

INFO OCT-01 ARA-06 ISO-00 CIAE-00 DODE-00 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 AID-05 COME-00

EB-07 IGA-02 MC-02 OMB-01 TRSE-00 NSCE-00 SSO-00

USIE-00 INRE-00 /064 W

----- 010096

O R 182130Z FEB 76

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC IMMEDIATE 4044

INFO USCINCSOUTH

USDEL JBUSMC RIO DE JANEIRO BRAZIL

C O N F I D E N T I A L SECTION 1 OF 2 BRASILIA 1471

DEPT PASS TO DEPT OF DEFENSE

E. O. 11652: GDS

TAGS: MASS, BR

SUBJECT: FY 1977 MILITARY SECURITY ASSISTANCE

REFS: A) STATE 036160 B) 75 BRASILIA 10957

1. FOLLOWING ARE MISSION'S RESPONSES KEYED TO POINTS RAISED IN PARAGRAPHS 4 AND 5 OF REFTTEL A.

2. PARA 4A: NOT APPLICABLE AS NO GRANT MATERIEL OR SERVICES PROPOSED.

3. PARA 5A: BRAZIL NOW MOST UNLIKELY TO ACCEPT AND CONSUMMATE CREDIT AGREEMENT AT LEVELS INDICATED BECAUSE OF MUCH TIGHTER RESTRICTIONS IMPOSED DURING RECENT MONTHS ON MILITARY PROCUREMENT FROM FOREIGN SOURCES AS RESULT CONTINUING BALANCE OF PAYMENTS DEFICITS (SEE REF B). UNDER REVISED PROCUREMENT PROPOSALS FOR FY 1977, BRAZILIAN ARMED FORCES NOW EXPECT TO USE NO MORE \$50 MILLION IN FMS CREDIT.

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4. PARA 5B: MAJOR ITEMS TO BE PROCURED IN PRIORITY ORDER

ARE:

MK 46 TORPEDOES	11.0	BN (BRAZILIAN NAVY)
TACTICAL AIR CONTROL--RADAR	12.0	BAF (BRAZILIAN AIR FORCE)
MK 37 TORPEDOES	3.0	BN
F-5 AIRCRAFT SUPPORT	1.5	BAF
GENERAL SUPPORT EQUIPMENT, AMMO	7.5	BAF (1.5)
		BN (6.0)
IN ROUTE/TERMINAL NAVIGATIONAL		
AIDS	15.0	BAF
	50.0	BAF (30)
		BN (20)

5. PARA 5C: CREDIT WILL BE UTILIZED TO SUPPORT US-  
APPROVED FORCE OBJECTIVES.

6. PARA 5D: SINCE BRAZIL IS IN THE PROCESS OF PURCHASING  
MILITARY EQUIPMENT FOR FORCE MODERNIZATION, US CREDIT  
ASSISTS SIGNIFICANTLY IN ASSURING THAT US MANUFACTURED  
MILITARY EQUIPMENT IS COMPETITIVE WITH THAT OF THIRD COUNTRY  
SUPPLIERS, THUS FURTHER CONTRIBUTING TO OBJECTIVES NOTED  
IN PARAGRAPHS BELOW.

7. PARA 5E: THE FMS CREDIT AND TRAINING PROGRAMS COMPLEMENT  
EACH OTHER IN DECREASING OR ELIMINATING DEFICIENCIES IN  
CERTAIN PRIORITY AREAS OF THE MATERIAL, PROFESSIONAL AND  
TECHNICAL CAPABILITIES OF THE BRAZILIAN ARMED FORCES.  
THUS, THE COMPLEMENTARY OF THE TWO PROGRAMS ASSURES THAT THE  
MODERNIZATION OF BRAZILIAN FORCES EQUIPMENT IS MATCHED BY  
PARALLEL MODERNIZATION OF THEIR SKILLS FOR EFFICIENT  
OPERATION AND MAINTENANCE.

8. PARA 5F: THE FMS CREDIT PROGRAM FACILITATES AND ENCOURAGES THE  
ACQUISITION OF US EQUIPMENT AND RELATED TECHNOLOGY AND  
THUS HELPS TO MAINTAIN THE US AS THE PREDOMINANT FOREIGN  
MILITARY INFLUENCE IN BRAZIL IN TERMS OF MILITARY EQUIPMENT,  
TECHNOLOGY AND DOCTRINE. THE ACQUISITION OF US EQUIPMENT  
ALSO CONTRIBUTES TO THE PERCEPTION OF THE COMPATIBILITY  
OF BROADER INTERESTS AND ACTIVITIES AND HELPS TO  
ENCOURAGE BRAZILIAN AUTHORITIES TO CONTINUE TO VIEW  
COUNTRY AND REGIONAL SECURITY OBJECTIVES AS BEING PARALLEL  
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TO THOSE OF THE UNITED STATES. FMS CREDIT HELPS GIVE  
CREDIBILITY TO OUR COMMITMENT TO A MATURE AND FORTHCOMING  
RELATIONSHIP WITH A COUNTRY OF PRESENT AND GROWING  
IMPORTANCE. FINALLY FMS CREDIT, AS PRINCIPAL FACET OF  
SECURITY ASSISTANCE PROGRAM, IS MAJOR TOOL FOR PRESERVING  
OUR ACCESS TO AND INFLUENCE WITH THE MILITARY, THE  
PREDOMINANT NATIONAL LEADERSHIP GROUP.

9. PARA 5G: FMS CREDIT PURCHASES BY BRAZIL ARE BEING USED FOR THE PURPOSE OF REASONABLY MODERNIZING THE BRAZILIAN FORCE STRUCTURE IN TERMS OF REPLACING OBSOLETE MILITARY EQUIPMENT WHICH IS COSTLY TO OPERATE AND MAINTAIN. IT IS NOT USED TO ACQUIRE MAJOR NEW OFFENSIVE WEAPONS SYSTEMS THAT MIGHT BE PERCEIVED BY NEIGHBORING STATES AS INDICATIVE OF AGGRESSIVE INTENTIONS. THERE IS NO EVIDENCE THAT FMS CREDIT SALES TO BRAZIL, EITHER IN TERMS OF SIZE OR TYPE OF EQUIPMENT, STIMULATE OR CONTRIBUTE TO AN ARMS IMBALANCE OR AN ARMS RACE IN THE REGION.

10. PARA 5H: FINANCIAL TERMS AND CREDIT ARRANGEMENTS HAVE BEEN MAJOR FACTORS IN BRAZIL'S MAJOR MILITARY EQUIPMENT PURCHASE DECISIONS. THIRD COUNTRY SUPPLIERS WILL PROBABLY CONTINUE TO MAKE ATTRACTIVE OFFERS AND THE GOB WILL CONTINUE TO SEEK FINANCIAL ARRANGEMENTS MOST FAVORABLE TO IT. ACCORDINGLY, IT IS CONSIDERED THAT THE POSSIBILITIES OF INFLUENCING THE GOB TO PURCHASE FROM THE US ARE BEST ENHANCED BY COMPETITIVE USG CREDIT TERMS.

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USDEL JBUSMC RIO DE JANEIRO BRAZIL

C O N F I D E N T I A L SECTION 2 OF 2 BRASILIA 1471

DEPT PASS TO DEPT OF DEFENSE

11 PARA 5I: ALTHOUGH BRAZIL IS CURRENTLY FACED WITH DIFFICULT

BALANCE OF PAYMENTS PROBLEMS, THE PROPOSED CREDIT IS MINOR IN RELATION TO ITS OVERALL FOREIGN DEBT STRUCTURE AND ITS CAPACITY TO REPAY. WE DO NOT BELIEVE IT WILL PLACE AN UNDESIRABLE BURDEN ON ITS FOREIGN EXCHANGE RESOURCES. WE BELIEVE THAT THE CURRENT BALANCE OF PAYMENTS WEAKNESS IS OF A TEMPORARY NATURE AND THAT THE KEY ECONOMIC DECISION-MAKERS HAVE THE MEANS AND THE DETERMINATION TO KEEP THE SITUATION WITHIN MANAGEABLE BOUNDS. ALTHOUGH BRAZIL HAS A SIZABLE FOREIGN DEBT OUTSTANDING (ESTIMATED AT \$22 BILLION AT THE END OF 1975), THE AMORTIZATION SCHEDULE OF THIS DEBT IS SUCH THAT REPAYMENTS SHOULD NOT PRESENT A PROBLEM DURING THE FORESEEABLE FUTURE.

12. PARA 5J: BRAZIL IS MAKING NO OTHER ARMS PURCHASE FROM THE US WHICH ARE RELEVANT TO THE PROPOSED CREDIT FOR FY 1977. FURTHER, THE MISSION IS NOT AWARE OF ANY NEW PURCHASES FROM THIRD COUNTRIES FOR EITHER CASH OR CREDIT WHICH COULD AFFECT THE PROPOSED CREDIT LINE. IN THE RECENT PAST, OF COURSE, BRAZIL HAS PURCHASED FRIGATES AND SUBMARINES FROM THE UK AND  
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MINESWEEPERS FROM THE FRG ON CREDIT. IT SHOULD BE NOTED, HOWEVER, THAT ALL MAJOR MILITARY CREDIT ARRANGEMENTS RECEIVE CLOSE SCRUTINY FROM AND REQUIRE THE APPROVAL OF THE BRAZILIAN MINISTRY OF FINANCE AND PLANNING SECRETARIAT. THE SHARP RISE IN THE COST OF IMPORTED PETROLEUM SINCE 1973 HAS INCREASED BRAZIL'S BALANCE-OF-PAYMENTS DEFICIT. AS A RESULT, THE GOB HAS RECENTLY TAKEN A NUMBER OF MEASURES TO REDUCE EXPENDITURES ABROAD, SOME OF THEM IN THE MILITARY FIELD. FOR EXAMPLE, WE HAVE BEEN INFORMED THAT THE NAVY WILL NOT PURCHASE ADDITIONAL DESTROYERS WHICH THEY HAD PREVIOUSLY INTENDED TO ACQUIRE FROM THE US. THE AIR FORCE HAS ADVISED US THAT A PRIMARY REASON FOR NOT CONCLUDING A SUPPLY SUPPORT ARRANGEMENT FOR THE F-5'S IS ECONOMIC AUSTERITY. THE ARMY, WHICH HAS NOT USED FMS CREDIT RECENTLY, IS CUTTING BACK ON MILITARY MANEUVERS AND A GENERAL CUT-BACK OF 50 PERCENT HAS BEEN DIRECTED IN THE USE OF PETROLEUM PRODUCTS. THIS GENERAL PHILOSOPHY OF REDUCING EXPENDITURES OF FOREIGN EXCHANGE IN THE MILITARY ARE, WITH GREATER RELIANCE WHERE POSSIBLE ON DOMESTIC PROCUREMENT, IS EXPECTED TO CONTINUE OVER THE IMMEDIATELY FORESEEABLE FUTURE AND WILL AFFECT DEFENSE SALES AND FMS CREDIT USE AS WELL AS OUR MAP TRAINING PROGRAM.  
CRIMMINS

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## Message Attributes

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**Disposition Approved on Date:**  
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**Disposition Case Number:** n/a  
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